EX PARTE OR LATE FILED

Sprint

Pete Sywenki
Director, Federal Regulatory Relations

Law & External Affairs
1850 M Street, NW, Suite 1100
Washington, DC 20036
Voice 202 828 7452
Fax 202 296 3469
pete.n.sywenki@mail.sprint.com

EX PARTE

July 20, 1998

Ms. Magalie Roman Salas
Secretary - Federal Communications Commission
1919 M Street, N.W. Room 222
Washington, D.C. 20554

RECEIVED
JUL 20 1998
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RE: CC Docket Nos. 96-45 and 97-160

Dear Ms. Salas,

ORIGINAL

On Friday, July 17, 1998, representatives of Sprint met with the Honorable Julia Johnson, Chairman of the Florida PSC and State Chair of the Federal-State Joint Board, and members of the Florida PSC staff with respect to the dockets referenced above. Representing Sprint were Monica Barone, Rick Kapka, Sue McCanless, Ben Poag, and Jim Sichter. The Florida PSC representatives were Bridget Duff, Mark Long, and Greg Fogleman. The purpose of the meeting was to discuss Universal Service for High Cost areas and related matters. The attached materials were used in the meeting.

The original and three copies of this notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(b)(1) of the Commission's rules. If there are any questions, please call.

Sincerely,

Pete N. Sywenki

Pete Sywenki

Attachment

No. of Copies rec'd 023
List ABCDE

SPRINT'S UNIVERSAL SERVICE FUND PROPOSAL

Presented to Chairman Julia Johnson

July 17, 1998

Jim Sichter 913/624-1303
Rick Kapka 913/624-6817
Sue McCanless 913/534-3131

Sprint.

- **Principles upon which the federal USF plan should be based:**

  - Support should be based on forward looking costs.

    - Using a forward-looking cost methodology as the starting point in calculating the support amount is appropriate since it enables the Commission to arrive at a rate that emulates competitive market conditions. Facilities-based competition will not develop unless the sum of revenues and subsidies is predictable and accurate. Using forward-looking costs is the only way the marketplace will send the correct signals to potential entrants.

      – If costs are over-estimated, that will attract inefficient entry that should not occur.

      – If costs are under-estimated, that will discourage efficient entry that should occur.

Sprint.

- **As a subsidy mechanism for universal service, the current rate structure is highly inefficient, large proportion of the subsidy is paid by those customers who are intended to be the beneficiaries of subsidies.**
  - Low income consumers also utilize toll services, and thereby contribute to as well as receive subsidies.

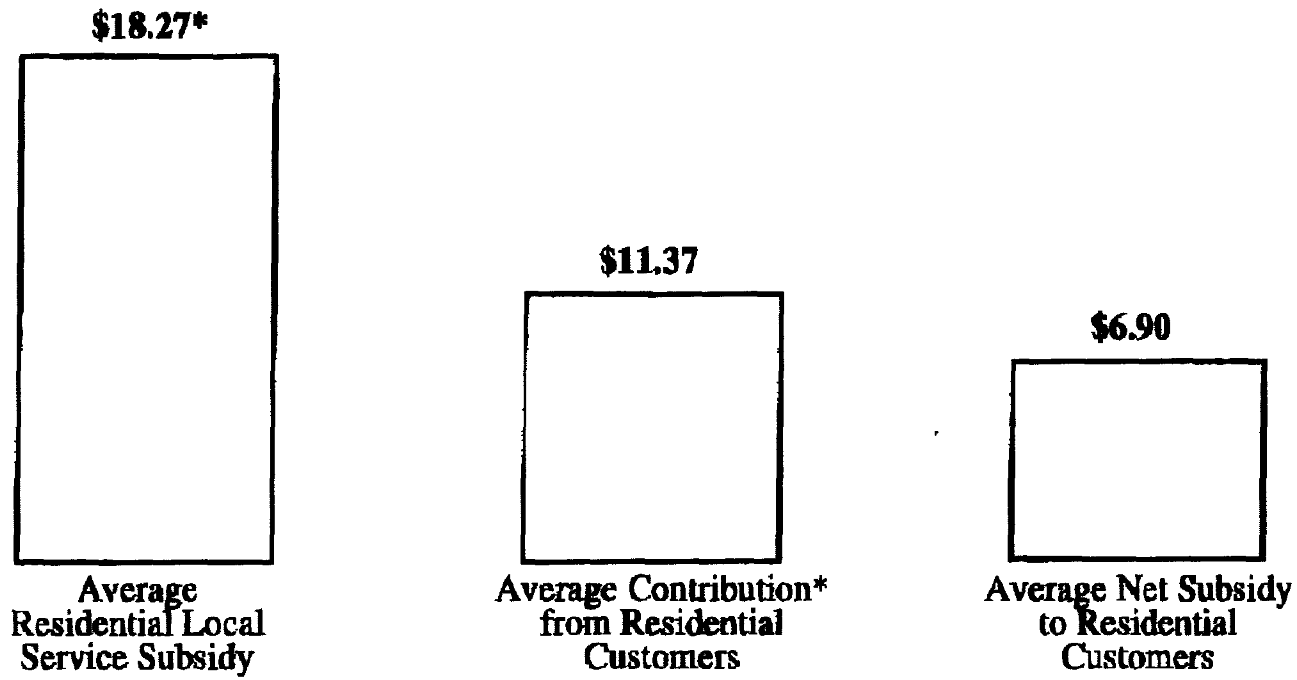
Expenditures on Long Distance Bill*

HH Income Group	% of H	Average LD Bill
Under 10K Annually	11.1	$16.17
$10K-$19,999	18.9	$19.11
$20K-$29,999	18.8	$21.94
$30K-$39,999	15.3	$21.73
$40K-$49,999	10.8	$20.09
$50K-$74,999	19.1	$26.80
$75K-$99,999	3.7	$27.51
$100K and Over	2.3	$28.78

** Source: PNR Bill Harvesting*

Sprint.

- **As a subsidy mechanism for universal service, the current rate structure is highly inefficient; a large proportion of the subsidy is paid by those customers who are intended to be the beneficiaries of subsidies.**
    - Based on a study of Sprint LTD customers, over half of the subsidy to residential local service is provided by residential customers
        - At the cost of highly inefficient prices



** Includes interLATA and intraLATA access and features.*

Sprint.

- **Current rate structures impede facilities-based local competition, particularly in the residential market.**

Percent Customers who are Profitable to Serve*
(Sprint LTD Data)

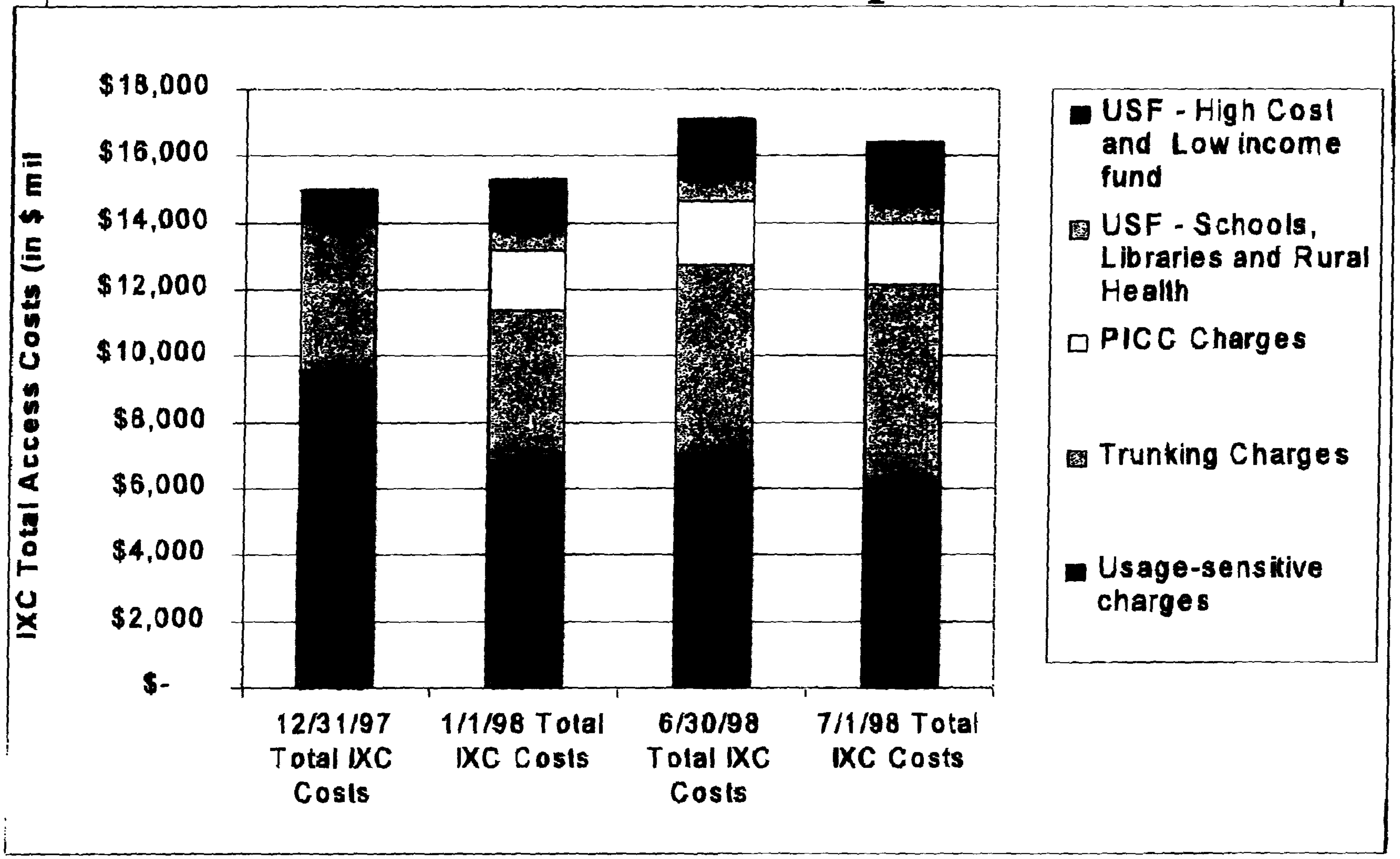
	Residential	Business
Total	29%	77%
Low Cost Areas (Local Service Costs $\leq$ \$25)	52%	99%
[Percent of Total Customers in Low Cost Areas]	[27%]	[39%]

***Comparison of total revenues guaranteed by customers to the total cost of service, based on BCPM with FCC inputs.**

Sprint

- **Existing, implicit subsidies must be eliminated. To the extent that subsidies are required, they should be funded through an explicit, competitively neutral USF.**
  - The elimination of implicit subsidies is required by the Telecommunications Act of 1996.
  - Existing, implicit access subsidies:
    - are not competitively neutral (only IXCs/toll users fund subsidies);
    - thwart facilities-based local competition; and
    - uneconomically and inequitably burden long distance users.

IXC Financial Impact

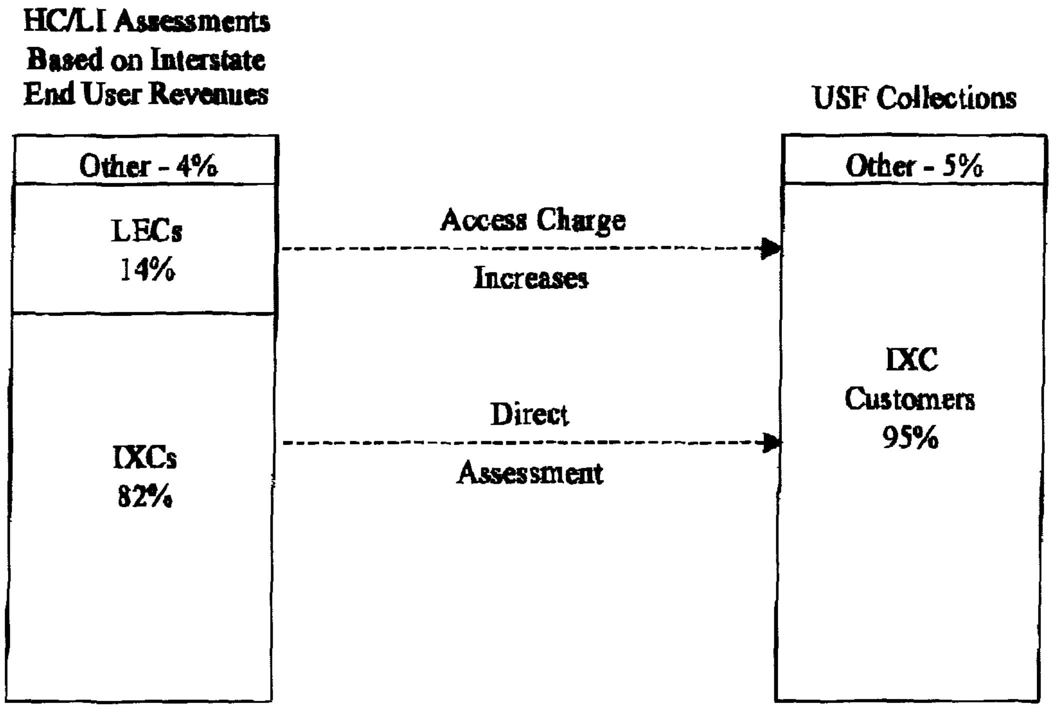


Note: USF contributions reflect the amount for that time period. The first two columns reflect 1996 base demand, while the last two reflect 1997 base demand as updated in the 7/1/98 filings.

Sprint

- **Assessing USF contributions on only interstate revenues effectively imposes the entire burden of USF support on interstate toll customers.**

  - Especially with LECs flowing their obligations through to IXCs in the form of higher access charges.



Sprint.

- **Federal USF should be a national fund, based on both state and interstate retail revenues**

  - The Commission has stated, both in its May 8th Order and in its recent Report to Congress, that Section 254 grants it the authority to create a national fund made up of contributions from intrastate as well as interstate revenues.

  - In order to ensure competitive neutrality, as well as sufficient support flow between states, a national fund is not only reasonable, but essential.

Sprint.

- **A National USF Fund Based on <u>Total</u> Retail Revenues**
  - Provides the broadest basis of support
    - Minimizing the burden on any particular service or jurisdiction
  - Is competitively neutral
- **Although concerns about cross-state subsidy flows (e.g., customers in low-cost states having to subsidize customers in high-costs states) are legitimate, it must be recognized that such <u>cross-state subsidy flows exist today</u>, in the form of the implicit subsidies built into access.**
  - Rationalization of those subsidy flows can benefit customers in all states.

- **Where a cost-based rate might be considered prohibitive, the federal benchmark should be based on the maximum *affordable* local service rate.**

  - Since the benchmark is intended to be a measure of "affordability" the appropriate standard is the basic local service rate, not average revenues.

  - Income considerations should be excluded, since low income households are addressed directly through the Lifeline/Link-up programs.

  - The federal benchmark rate should be set at a level representing the maximum affordable local service rate - a rate which is considerably higher than the below-cost local service rates that exist today.

Sprint.

- **USF should be narrowly targeted to high cost areas**
  - Sprint believes that costs and support should be determined on a census block group level.
- **USF support should be equally available to all Eligible Telecommunications Carriers (ETCs)**
- **Implementation of the plan should be revenue neutral at its inception**
  - Any new USF funding (i.e., funding in excess of current levels of high cost support) to a company should be offset, dollar-for-dollar, with reductions in access charges.

- **USF fund obligations should be recovered through a surcharge on end users' retail charges.**

  - The end user surcharge is the key to any workable USF plan. Without it, competitive neutrality, both in terms of contribution levels and recovery, is a virtual impossibility.

  - Because implicit subsidies exist today, end users are already supporting the universal service fund. Consequently, the removal of these implicit subsidies, replaced with the explicit surcharge, will not result in an overall increase in consumer charges.

Sprint.

- USF support can be phased-in to minimize the customer surcharge
  - Total industry retail revenues are growing at approximately 12% per year.
  - Whereas access lines are growing at only 4.3% a year.
    - And USF-eligible access lines (i.e., access lines in rural, high-cost areas) may be growing less than the average.

	1998	1999	2000	2001	2002	2003	2004
Total Retail Revenues (Billions)	$188	$211	$236	$264	$296	$331	$371
USF Support available with 3% surcharge (Billions)	$5.6	$6.3	$7.1	$7.9	$8.9	$9.9	$11.1

Sprint.

- **States are free to adopt intrastate USF plans if they desire**
  - Employing a lower benchmark affordable rate, the state plan would act as a safety net for those areas where the federal benchmark rate may, in the state's opinion, prove burdensome.
  - Funding for state plans must come solely from intrastate retail revenues.